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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 0998

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY
RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0368

RUEHAK/AMEMBASSY ANKARA PRIORITY 3908

RUEHBJ/AMEMBASSY BEIJING PRIORITY 1725

RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0167

RUEHKO/AMEMBASSY TOKYO PRIORITY 1592

RUEHIT/AMCONSUL ISTANBUL PRIORITY 2161

RUEHBS/USEU BRUSSELS PRIORITY

RHMFIISS/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUEAAIA/CIA WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEKJCS/Joint STAFF WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

S E C R E T SECTION 01 OF 02 ASHGABAT 000762

SIPDIS

STATE FOR SCA/CEN, EEB

PLEASE PASS TO USTDA DAN STEIN

USEU BRUSSELS FOR SPECIAL ENVOY GRAY

ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

E.O. 12958: DECL: 06/16/2028

TAGS: PGOV PREL EPET RU TX

SUBJECT: TURKMENISTAN: LUKOIL PARTNERSHIP BECOMES A DRAG
ON CONOCOPHILLIPS

Classified By: CDA RICHARD E. HOAGLAND: 1.4 (B), (D)

¶1. (S) SUMMARY: ConocoPhillips, bidding with its partner Lukoil on production sharing agreements (PSAs) for Turkmenistan's offshore Blocks 19, 20 and 21, is very close to resolving all outstanding issues in its negotiations with the Government of Turkmenistan and has even accepted a non-standard arbitration arrangement. However, on June 14 Executive Director of Turkmenistan's State Agency for Management and Use of Hydrocarbon Resources Bayrammurat Muradov implied more directly than ever before to ConocoPhillips' AmCit President for Russia and the Caspian Region Don Wallette (please protect throughout) the U.S. company's partnership with Lukoil is preventing the PSAs from being signed. Wallette said the partnership with Lukoil can be amended, but doing so would remove the time advantage ConocoPhillips now enjoys over its other competitors for the blocks -- reportedly including at least Rosneft, KazMunaiGaz, and Shell. END SUMMARY.

ALL BUT ONE ISSUE RESOLVED

¶2. (C) Following nearly a year of negotiations with Turkmenistan's State Agency for Management and Use of Hydrocarbon Resources, in which ConocoPhillips has increasingly made concessions, the company has narrowed the differences to about four small issues that "could be resolved in about an hour" -- and one large issue that creates a major dilemma for the company, ConocoPhillips' President for Russia and the Caspian Region Don Wallette told the Charge on June 14. Confirming that arbitration had at one time been a major point of difference, Wallette said ConocoPhillips resolved the point during the April 17-18 "Oil and Gas in Turkmenistan" conference in London with the decision by the company's CEO Jim Mulva to accept Turkmenistan's demand that any future contract arbitration

take place at the International Arbitration Court in Stockholm, and that Turkmen courts would be responsible for enforcing any decision. ConocoPhillips had also agreed to increase the size of the signing and discovery bonuses.

TURKMENISTAN DOES NOT WANT LUKOIL

¶3. (S) During a two-hour meeting on June 14, Wallatte asked Muradov directly if Lukoil is the problem preventing closing the deal. (NOTE: Under their partnership agreement, Lukoil would work offshore Block 19 and ConocoPhillips work Blocks 20 and 21, with each company having 50% equity in the other's blocks. END NOTE.) Muradov implied strongly that is the case. He told Wallette Lukoil's strategy of pursuing a PSA with a meeting between Lukoil CEO Vagit Alikperov and President Berdimuhamedov has been poorly received in Turkmenistan's hydrocarbon bureaucracy. Wallette commented to Charge that ConocoPhillips had entered its partnership with Lukoil four years ago as the only way it then saw to gain access to Russian hydrocarbon reserves. While ConocoPhillips had hoped that Lukoil's understanding of the former Soviet Union would also lead to contracts in the Commonwealth of Independent States, not a single contract has materialized in those four years, and Lukoil has become a drag on the U.S. company.

¶4. (S) Wallette said he explained to Muradov under the terms of the partnership either can terminate the agreement at any time, but, upon doing so, that company is barred for a year from competing for any contract that it initiated under the partnership. However, ConocoPhillips does not want to lose

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Blocks 20 and 21 because of the partnership. While ConocoPhillips has an obligation with Lukoil, the agreement can be amended, but ConocoPhillips needs the State Agency's guidance, Wallette said he told Muradov. If the State Agency wants the company to amend its partnership structure, two things need to happen: the CEOs of ConocoPhillips and Lukoil need to talk, and the State Agency needs to communicate its decision directly to Lukoil. When Wallette asked Muradov whether it is time for the two CEOs to talk, Muradov's response was a very brief "no."

NO ACTION AT LEAST UNTIL AFTER MEDVEDEV VISIT

¶5. (S) Wallette believes Muradov is unwilling to take any action to get Lukoil out of the picture right now, with a visit by Russia's President Medvedev due to take place on July 4 and 5. (NOTE: Alikperov reportedly is planning to participate in the extraordinarily large Russian delegation, which has reportedly reserved every hotel room in the city for the visit. END NOTE.) Muradov reportedly hinted that resolution of the issue with Lukoil would occur only sometime after Medvedev's departure. In the meantime, ConocoPhillips' CEO Mulva plans to visit Turkmenistan in late June "to wish President Berdimuhamedov a happy birthday" -- and to be able to tell ConocoPhillips' board of directors that he looked Berdimuhamedov in the eye and is comfortable with the arbitration clause.

¶6. (C) In reply to a question, Wallette told the Charge ConocoPhillips is not looking at any other Caspian blocks. It knows that the competition is moving in -- Shell, KazMunaiGaz, and Rosneft are widely rumored also to want blocks 20 and 21 -- and wants to stay focused. ConocoPhillips does not plan to open an Ashgabat office unless it signs a PSA.

¶7. (S) COMMENT: This is the first confirmation we have of rumors Turkmenistan does not want Russian companies getting an exploitation toe-hold, either offshore or onshore. While this is admirable, it puts ConocoPhillips in a bind and might further delay new Western exploitation of Turkmenistan's hydrocarbon resources. END COMMENT.

HOAGLAND